

Economic & Revenue Outlook

Presentation for
Bonneville Power Administration

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Portland, Oregon



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- There is evidence that the economic recovery stumbled in May – we are now predicting near-term weakness, but a continuing recovery
- The downside risks to the forecast have increased
 - Employment remains weak
 - Consumers are pessimistic
 - High level of uncertainty
- Other risks are the same as before
 - Downside: weak construction; community banks; tight credit for small business
 - Upside: exports; aerospace; software; fears of European contagion receding



At this stage in 1981-82, the state economy had made up all of the job losses

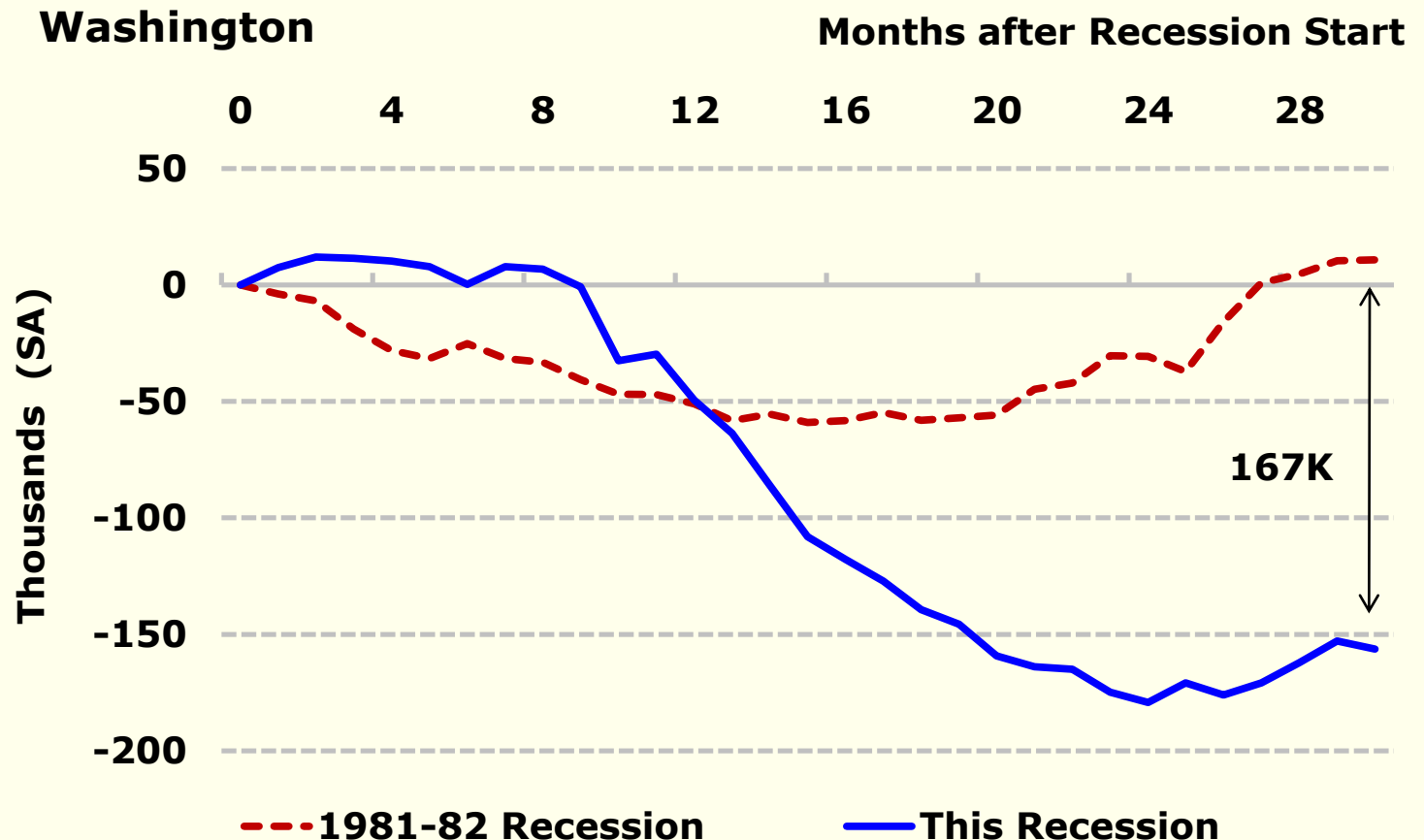
Peak to
trough job
losses

1981-82:

2.9% of
labor force

This time:

5.1% of
labor force

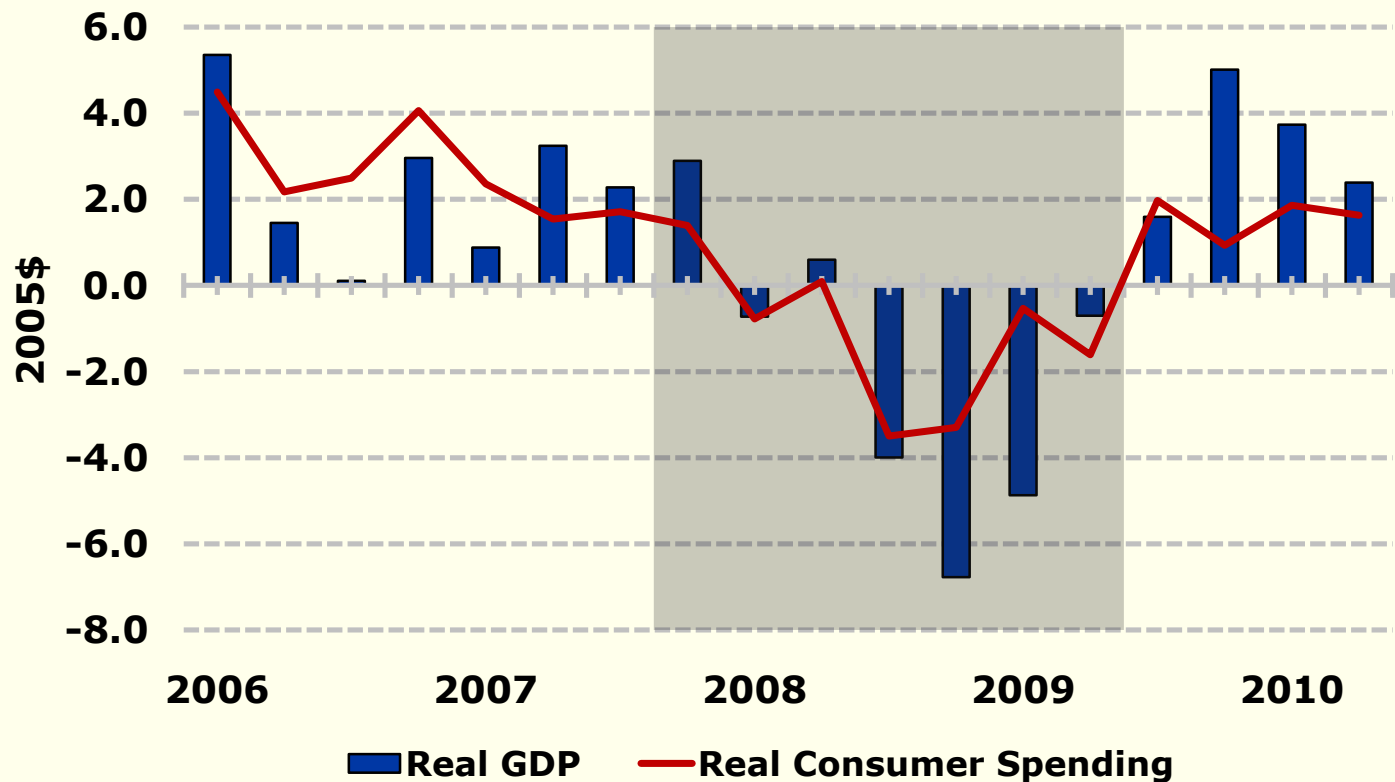


Source: WA State ESD, ERFC; data through June 2010



GDP growth is now below trend

Percent growth, SAAR

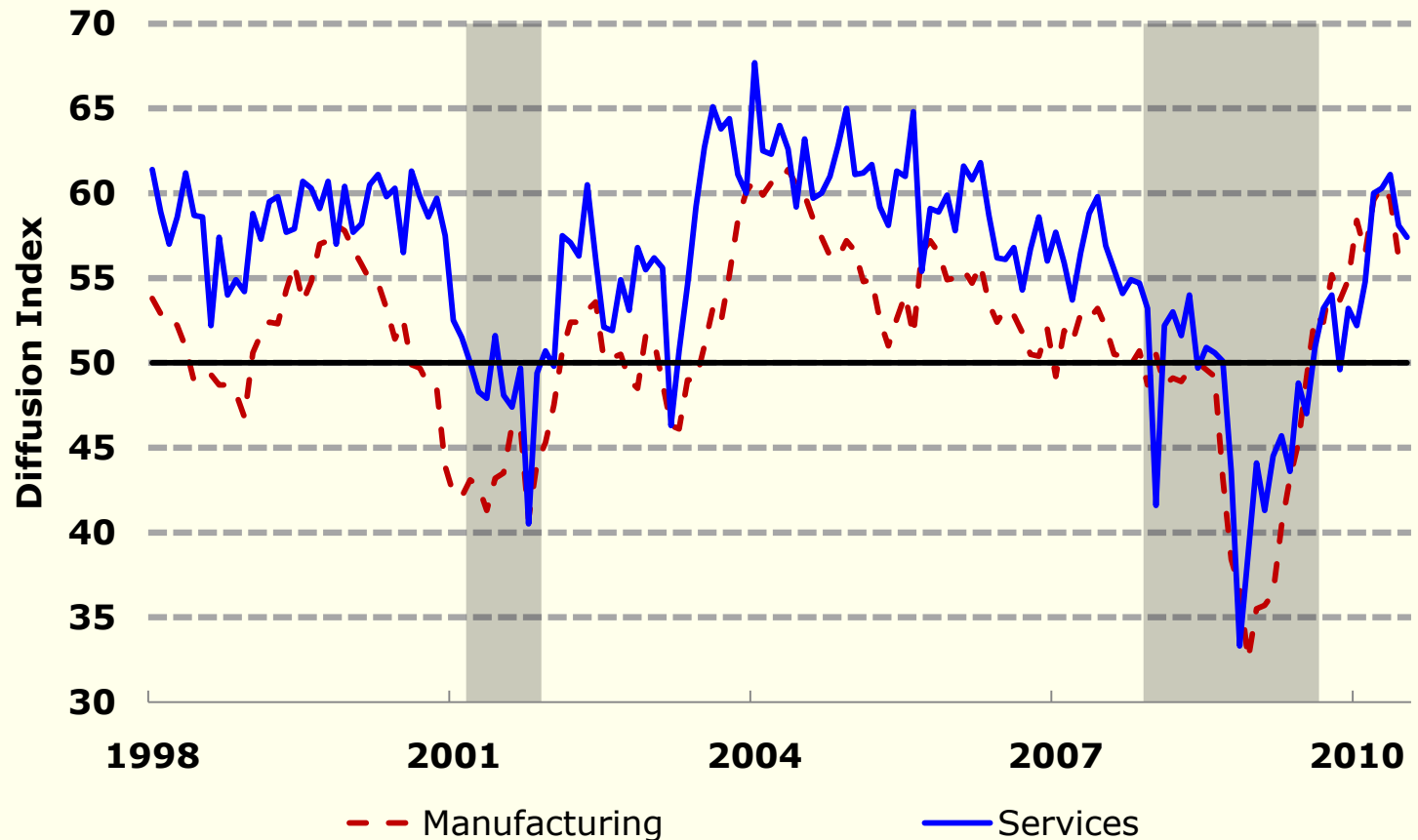


Source: BEA, data through 2010 Q2



ISM indices for both services and manufacturing indicate slowing growth

An index greater than 50, implies growth

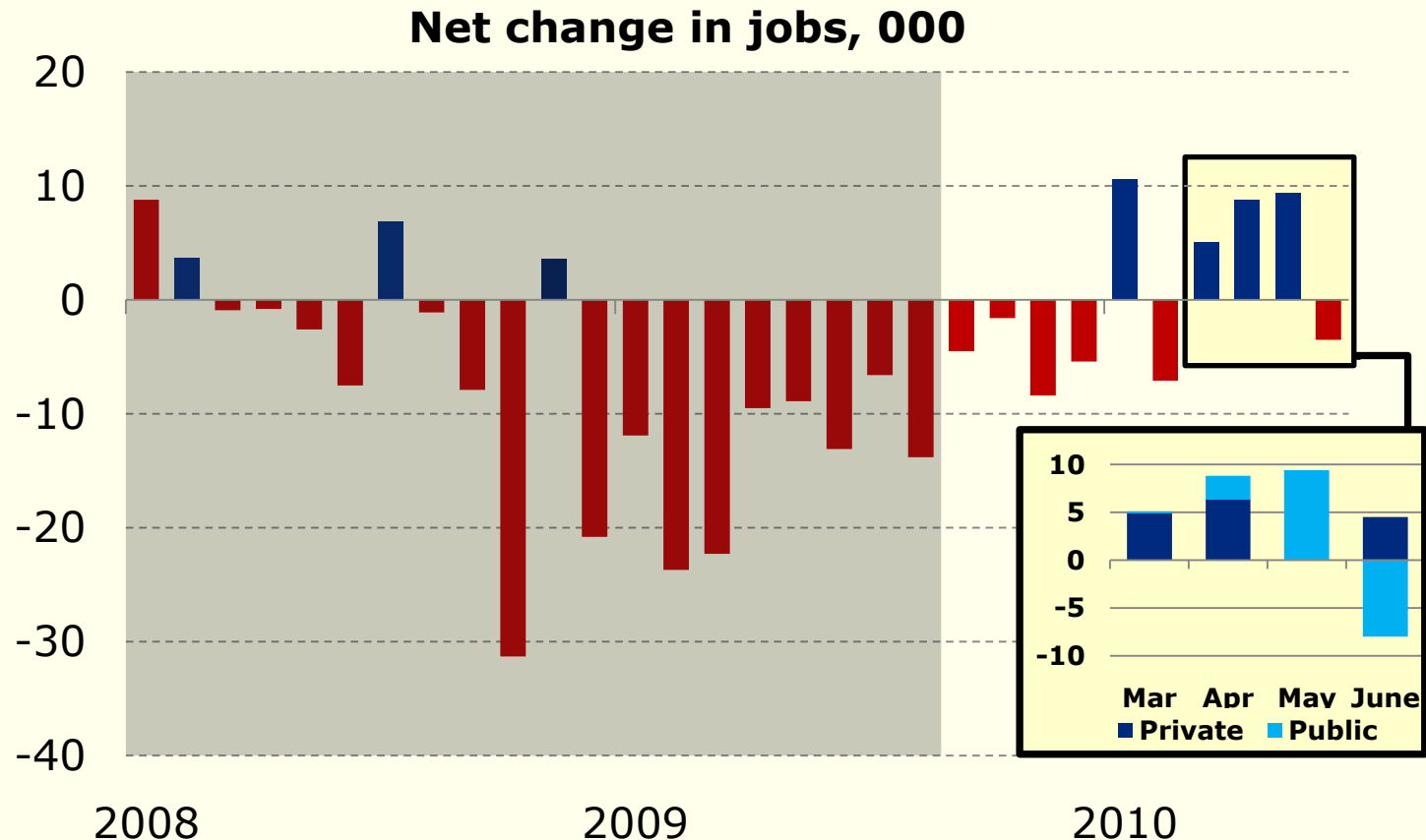


Source: Institute of Supply Management; data through July 2010



Private sector job growth in WA is following the same pattern as the U.S. – weak and hesitant

Only 100 private sector jobs were added in May, down from 6,300 in April



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Source: WA State Employment Security; data through June 2010



The S&P 500 VIX volatility index shows easing concerns about Europe

This index is a proxy for fear and uncertainty in markets

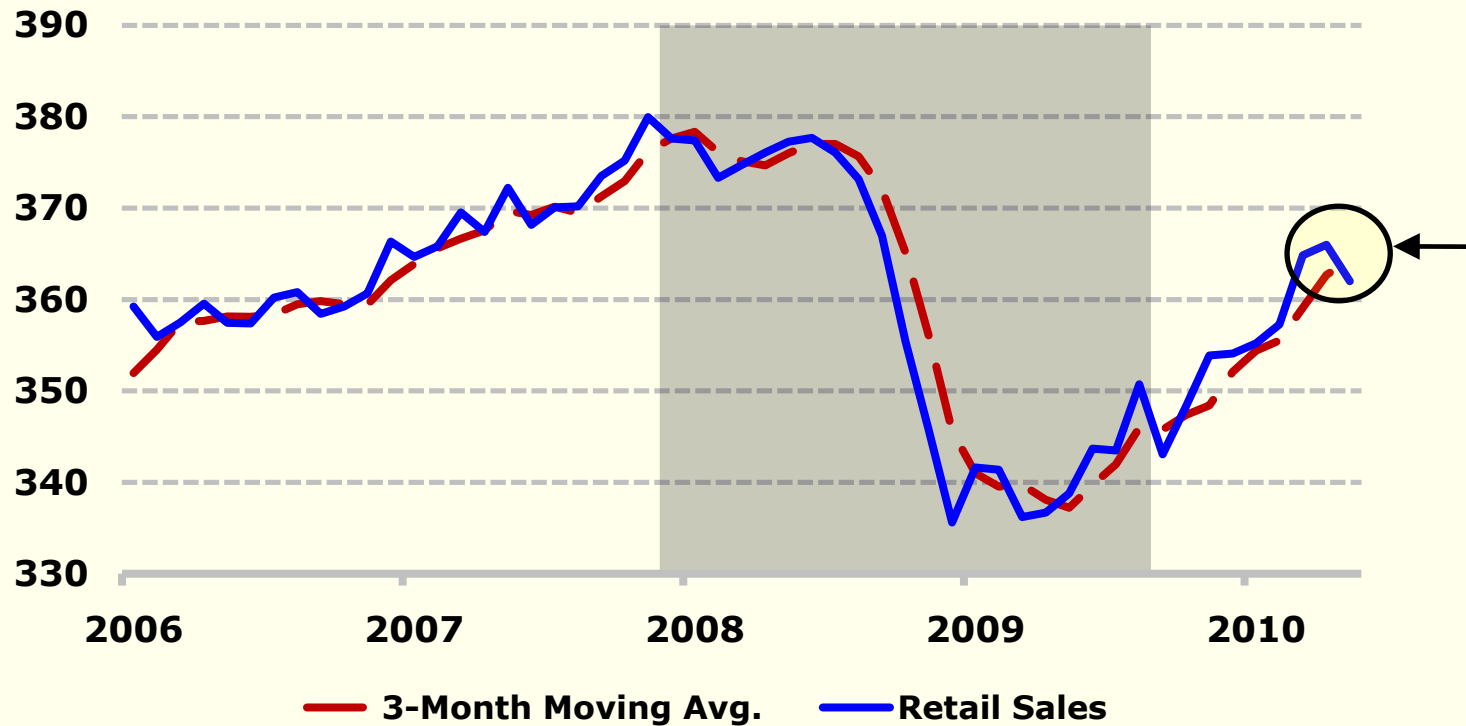


Source: Yahoo Finance; data through July 30, 2010



Retail sales fell in May and June

U.S. Retail Sales and Food Services
USD, billions



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Source: U.S. Census Bureau; data through June 2010

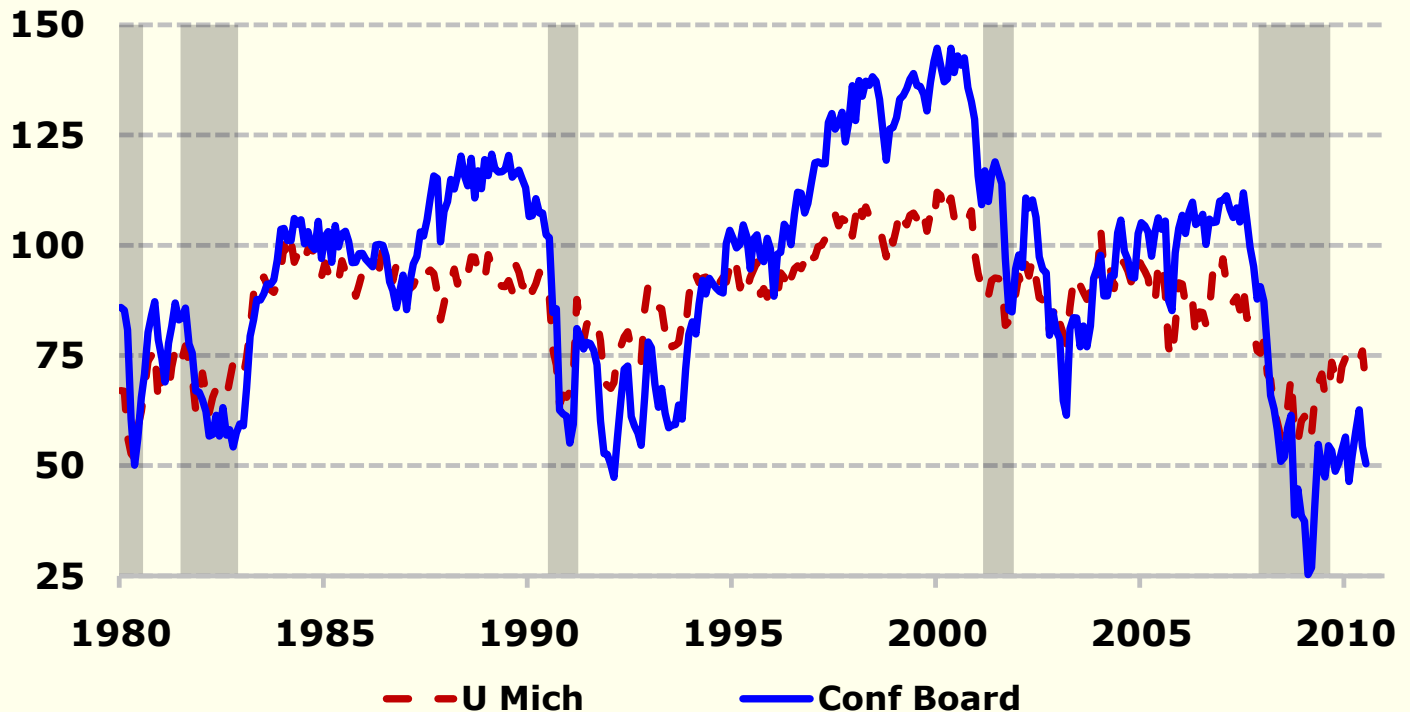


Consumer confidence remains uncertain

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



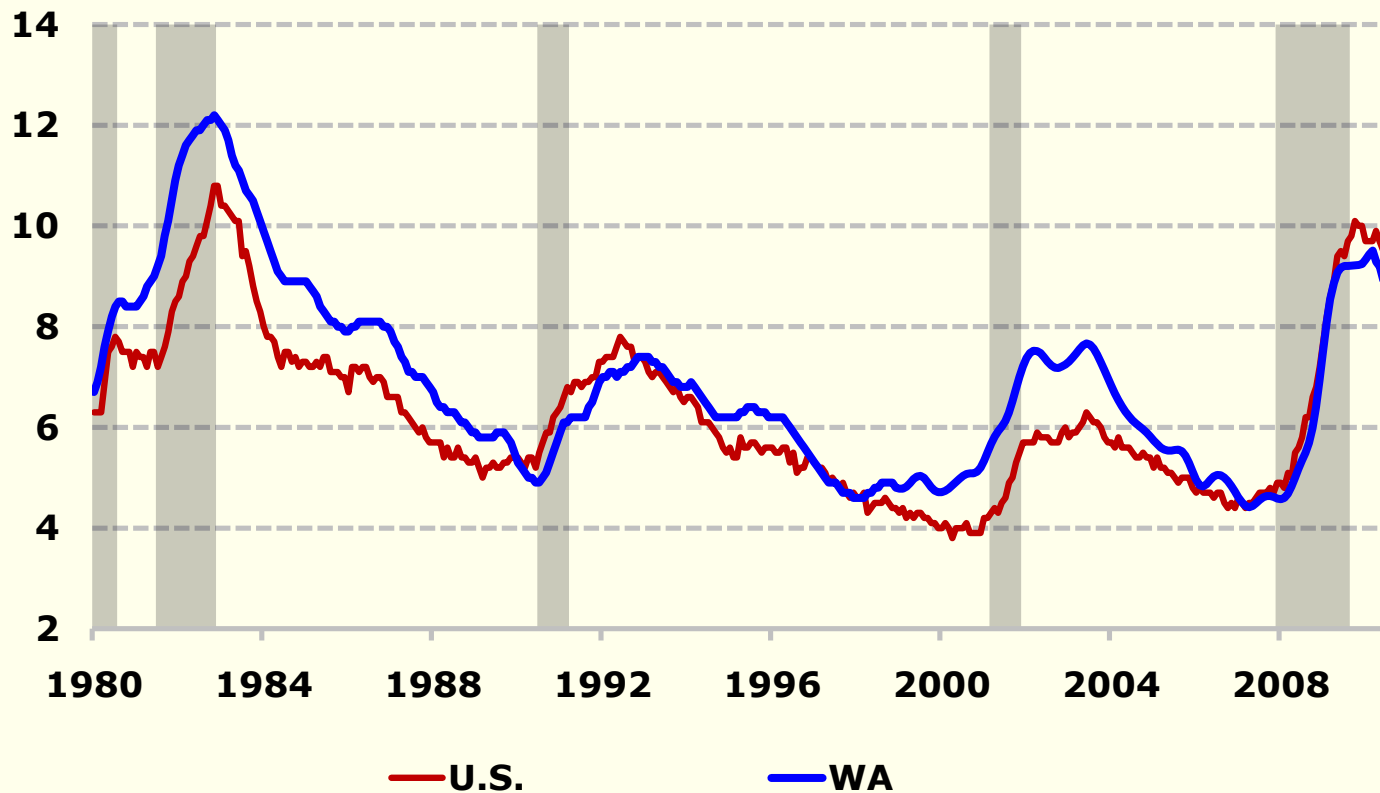
Source: University of Michigan; Conference Board, data through July 2010



Unemployment is still high

It is normal for this rate to continue to rise even after the economy is in recovery

Unemployment Rate, Percent, SA



Source: WA ESD, BLS; data through June 2010

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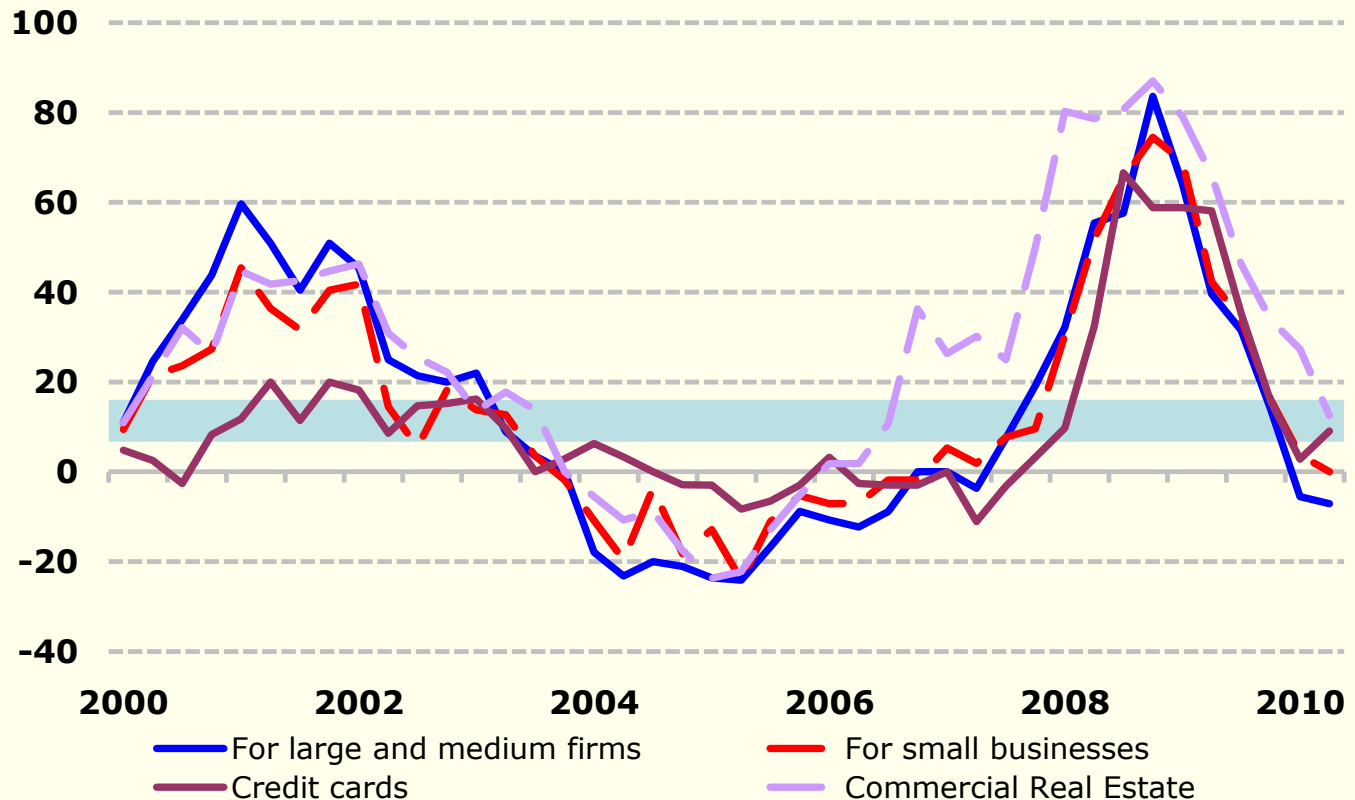
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Large bank lending appears to be easing

Survey includes 60 large domestic banks and 24 U.S. branches of foreign banks

Net Tightening minus Easing Percent



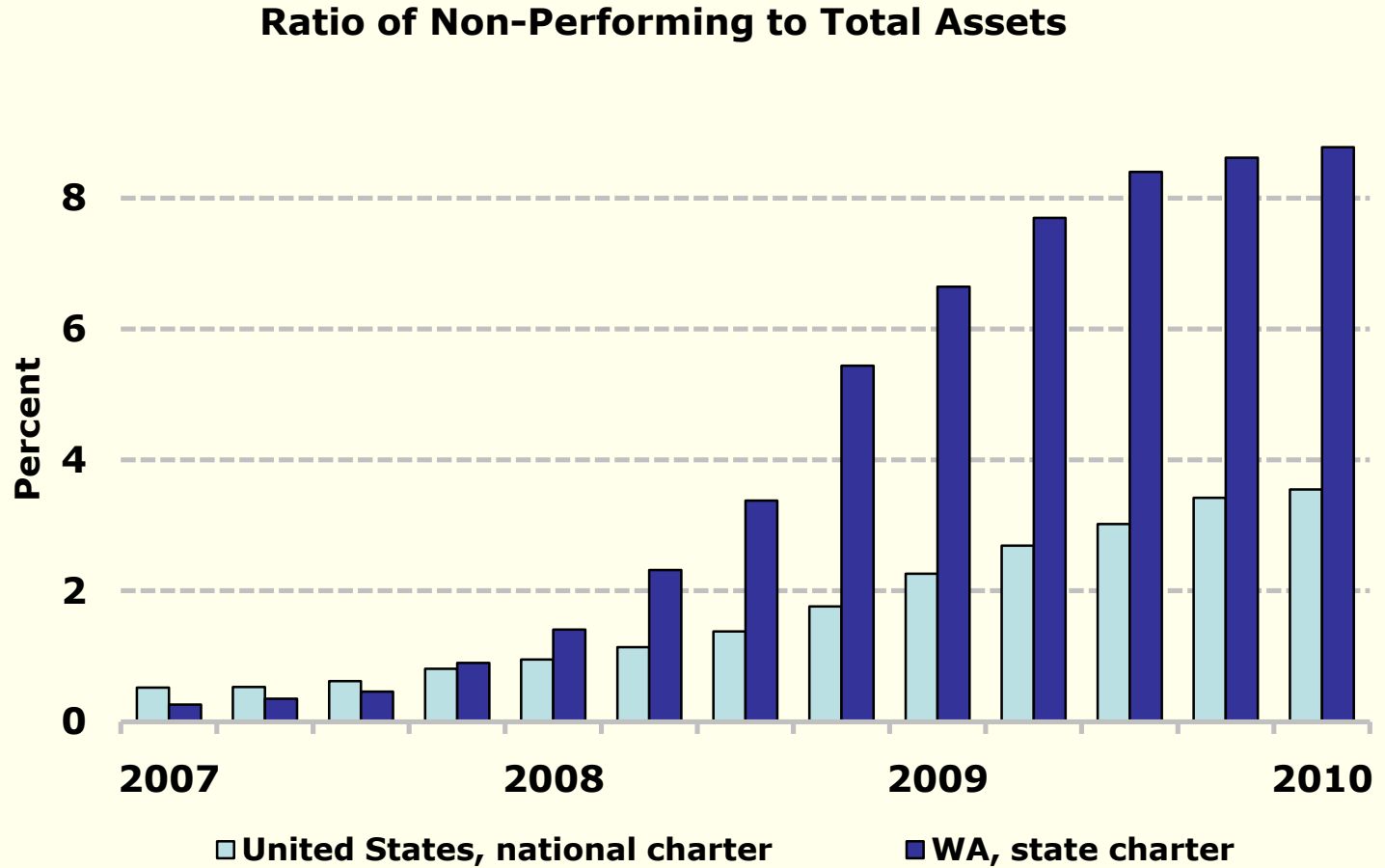
Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey; data through April 2010 survey

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Asset quality of regional banks is poorer, but leveling off

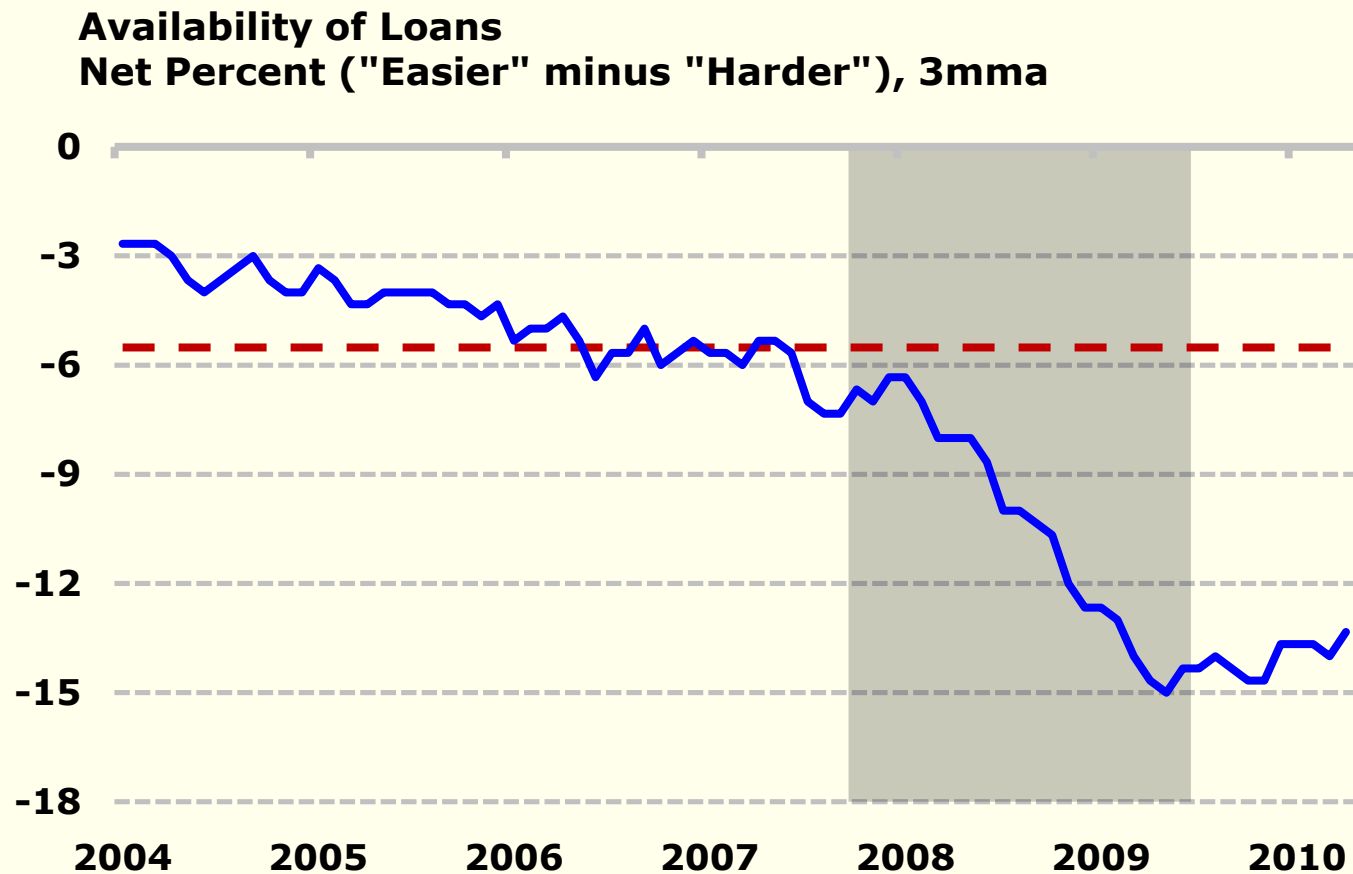
The poorer asset quality of regional banks is due to their disproportionately high exposure to commercial real estate



Source: FDIC, data through 2010 Q1



Credit conditions remain tight for small business



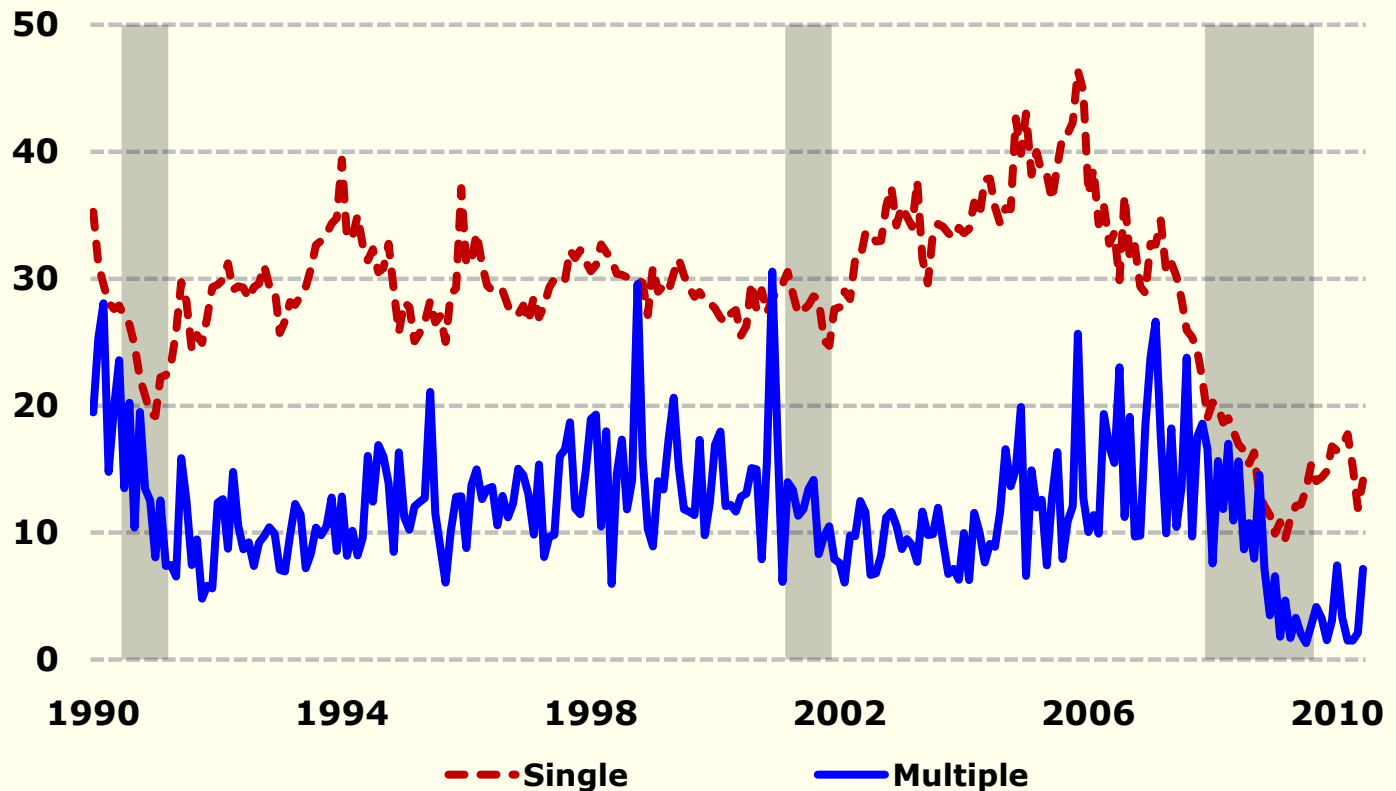
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Source: National Federation of Independent Business; data through June 2010



WA single family housing has collapsed, now that the first time homebuyer tax credit has expired

Thousands, SA

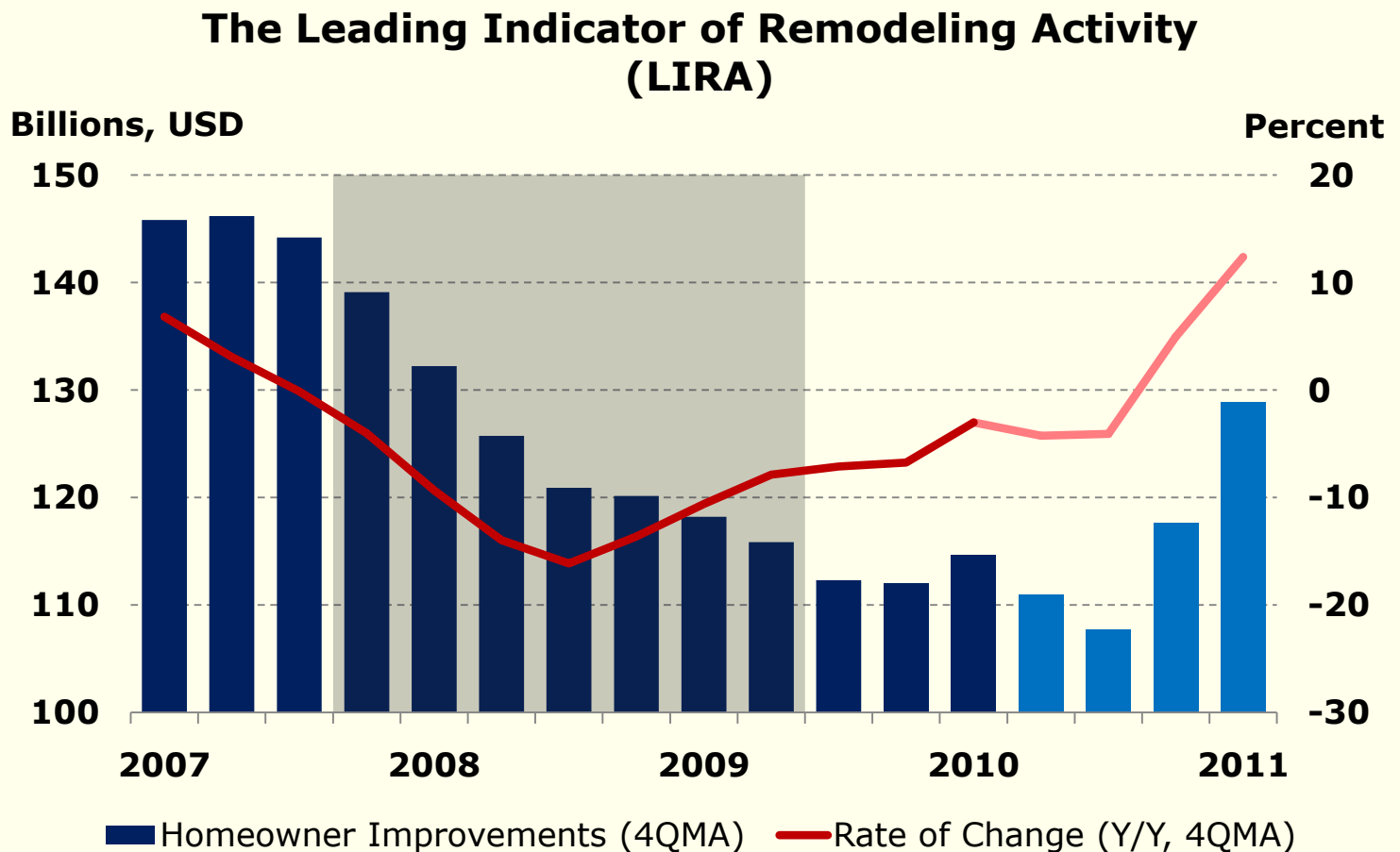


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Source: U.S. Census Bureau; data through June 2010



Leading indicator suggests remodeling improvement in late 2010

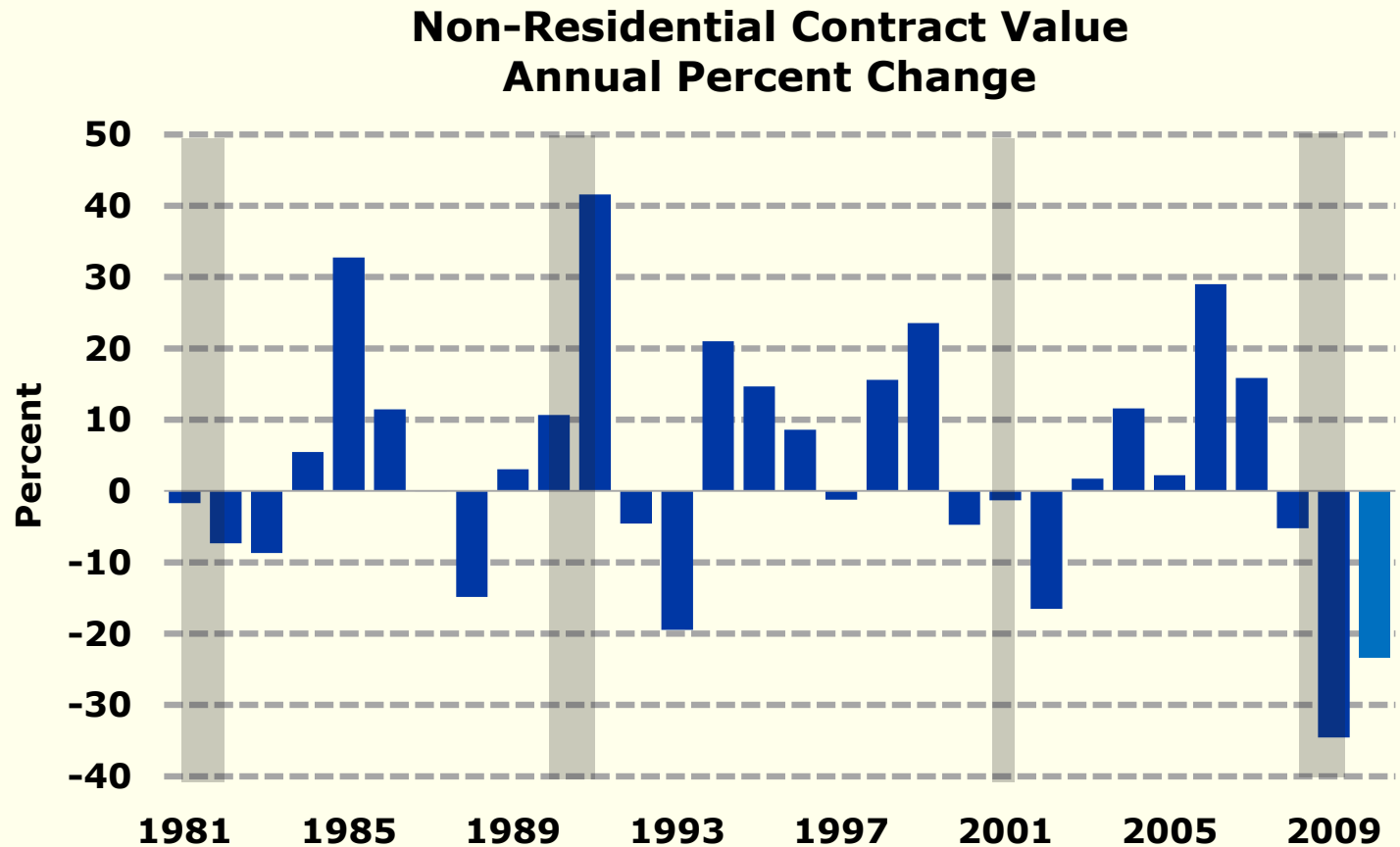


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Source: Joint Center for Housing Studies of Harvard University, actual data through 2010 Q1



This is the worst downturn in non-residential construction in 30 years

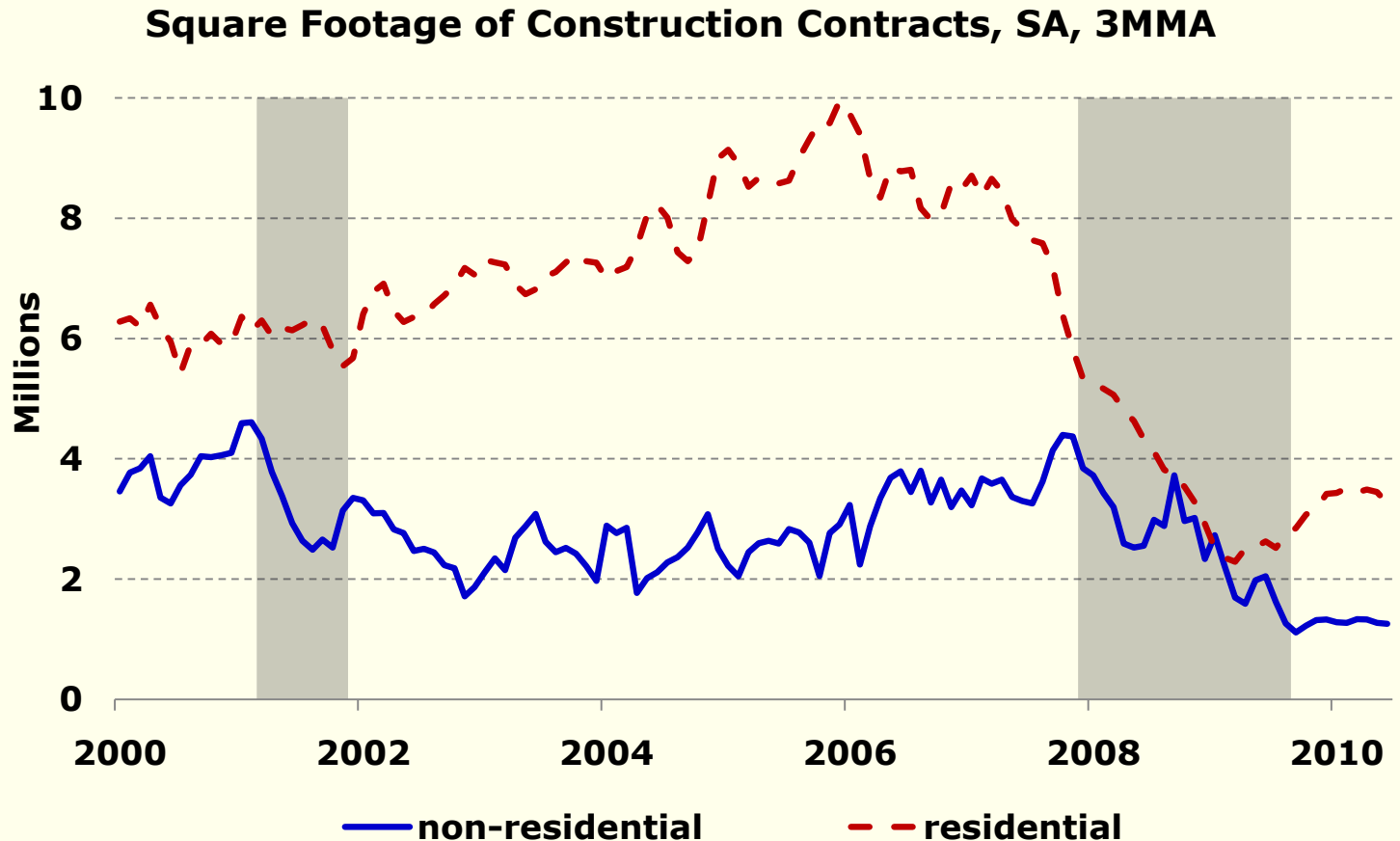


Source: McGraw-Hill Construction, data through June, 2010



New construction in WA is no longer in free-fall, but the recovery will be weak

Residential square feet is up 55% since reaching a trough in Jan 2009



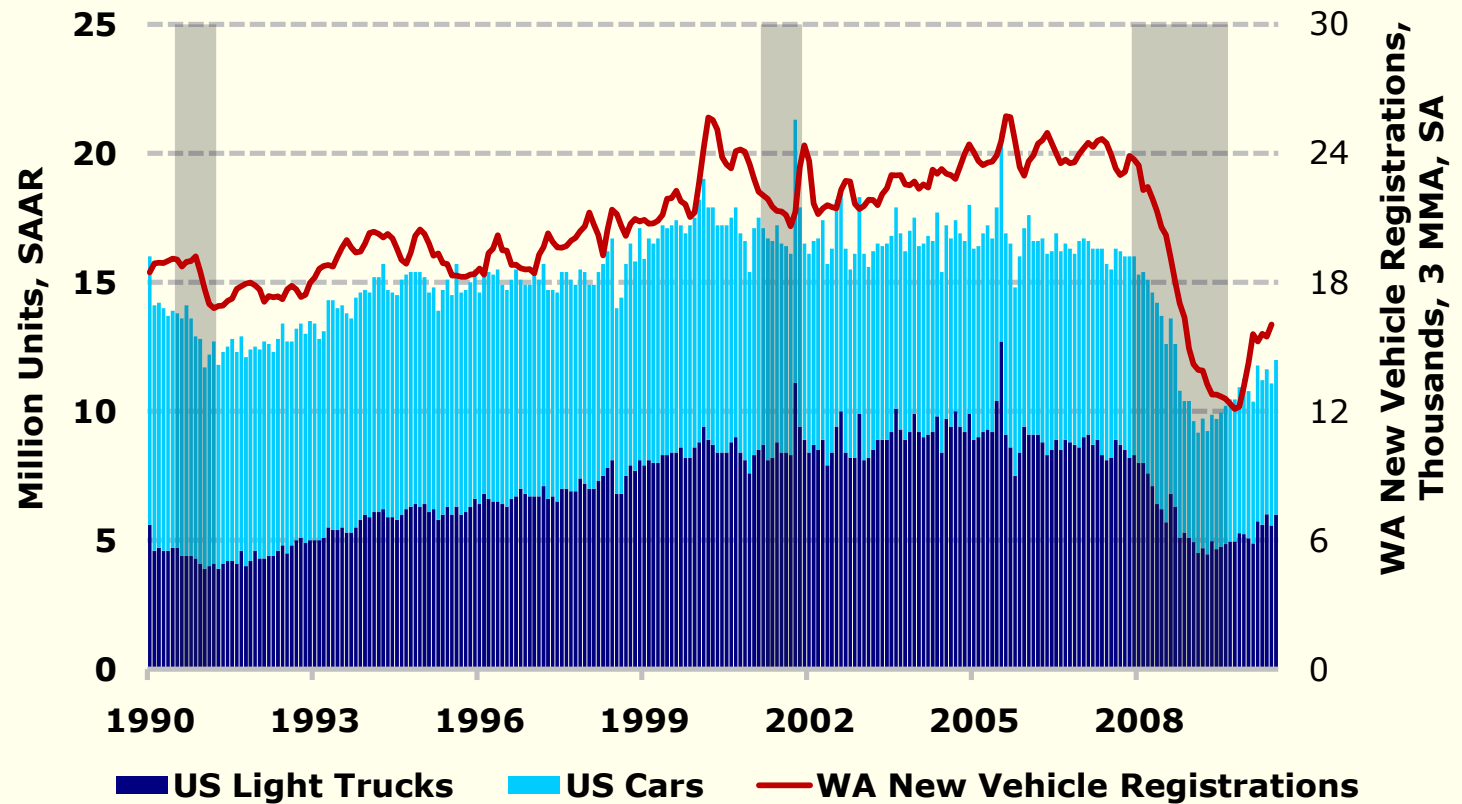
Source: McGraw Hill Construction, ERFC; data through June 2010



Automotive sales continue to improve

National car sales were 19% higher in May 2010 than in May 2009

Cash for Clunkers effect removed



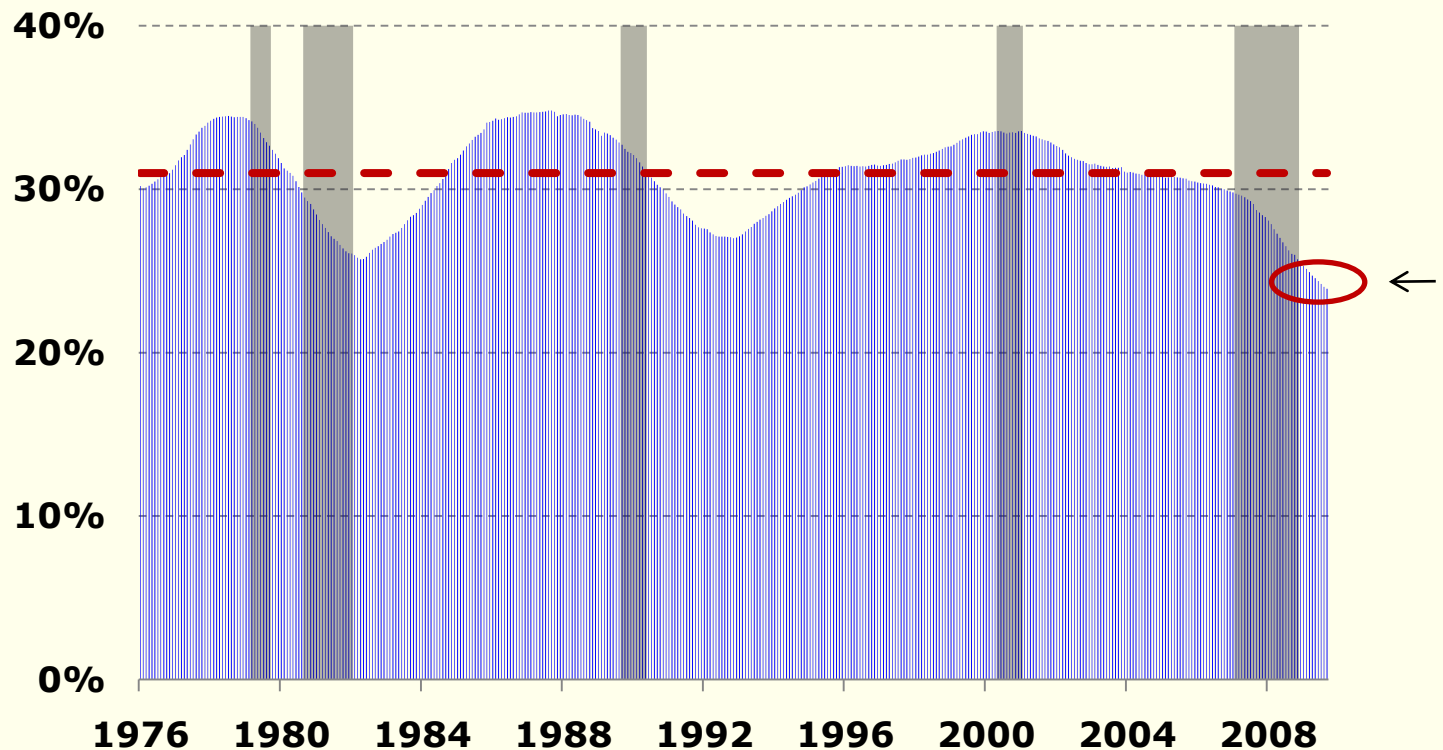
Source: Autodata Corporation, WA DOL; data through July 2010



Relative age of the car fleet indicates continued turnaround in car sales

The percent of "old" cars on the road is at a historic high

U.S. LMV Sales: Ratio of 36/120 Months



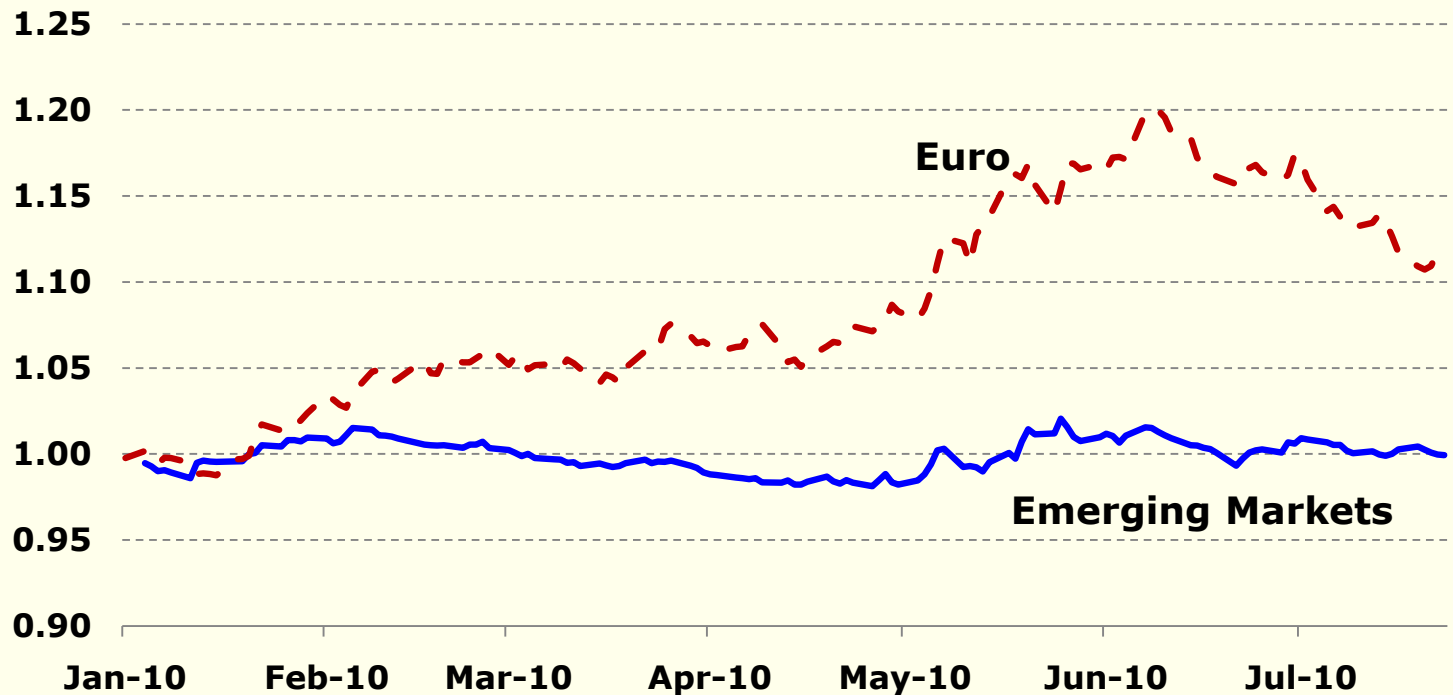
Source: Autodata Corporation, ERFC; data through July 2010



The USD has appreciated against the EUR this year, but not against emerging market currencies

U.S. Dollar versus select currencies

Index, Dec. 31, 2009 = 1.0



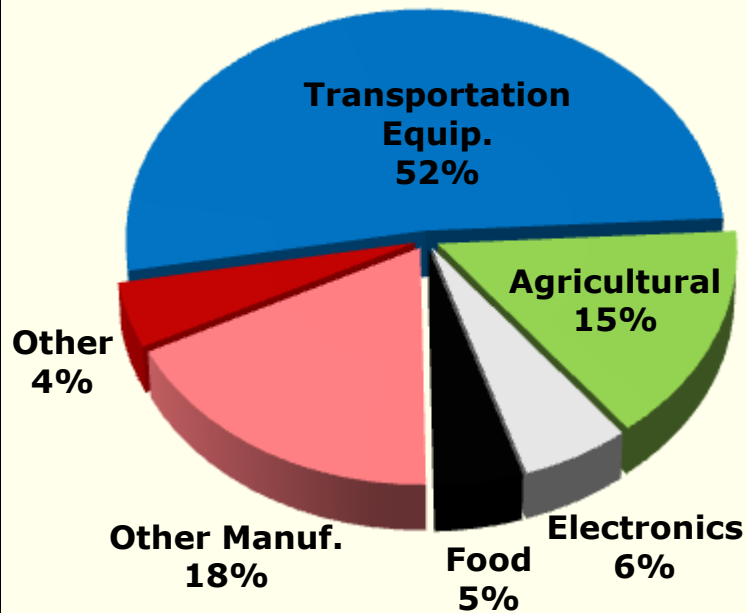
Source: US Federal Reserve Bank, ERFC; data through July 23, 2010



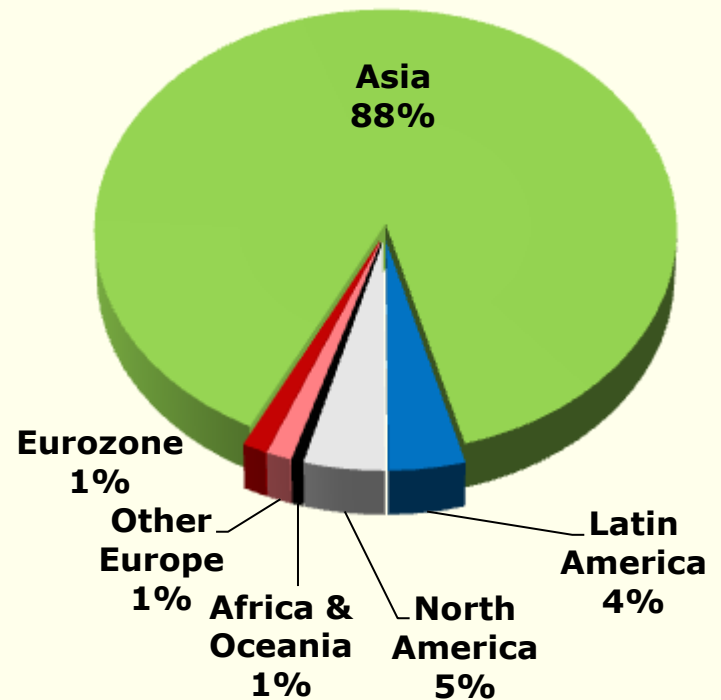
Washington exports much more to Asia than Europe

2009

By Industry



Agriculture



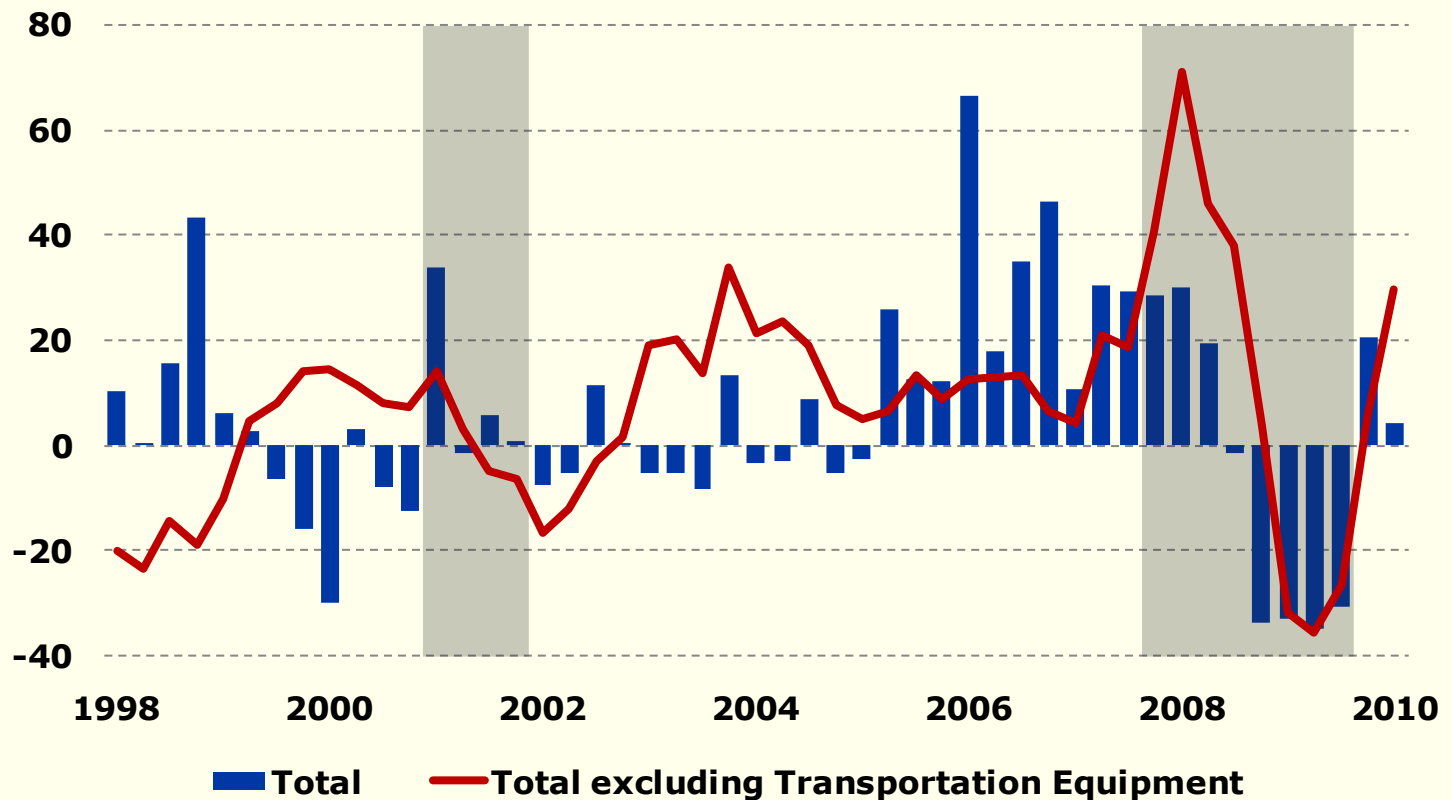
Source: Wiser Trade Data



Exports will help the state recover faster than the nation

Exports excluding transport equipment were up 30% in Q1

Exports
Percent Change, year ago



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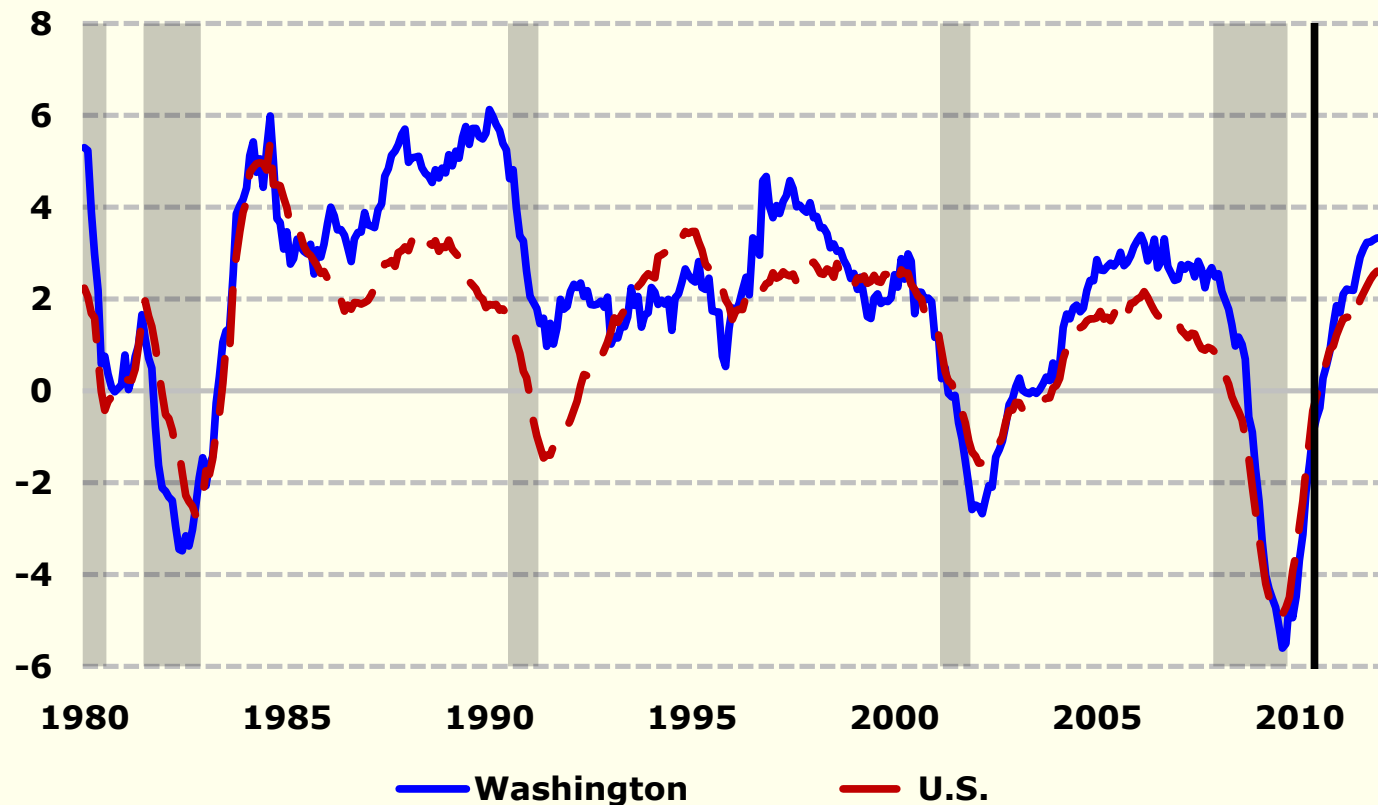
Source: Wiser Trade Data; through 2010 Q1

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WA employment lagged the nation in the downturn and will recover stronger than the nation

Percent change, year ago

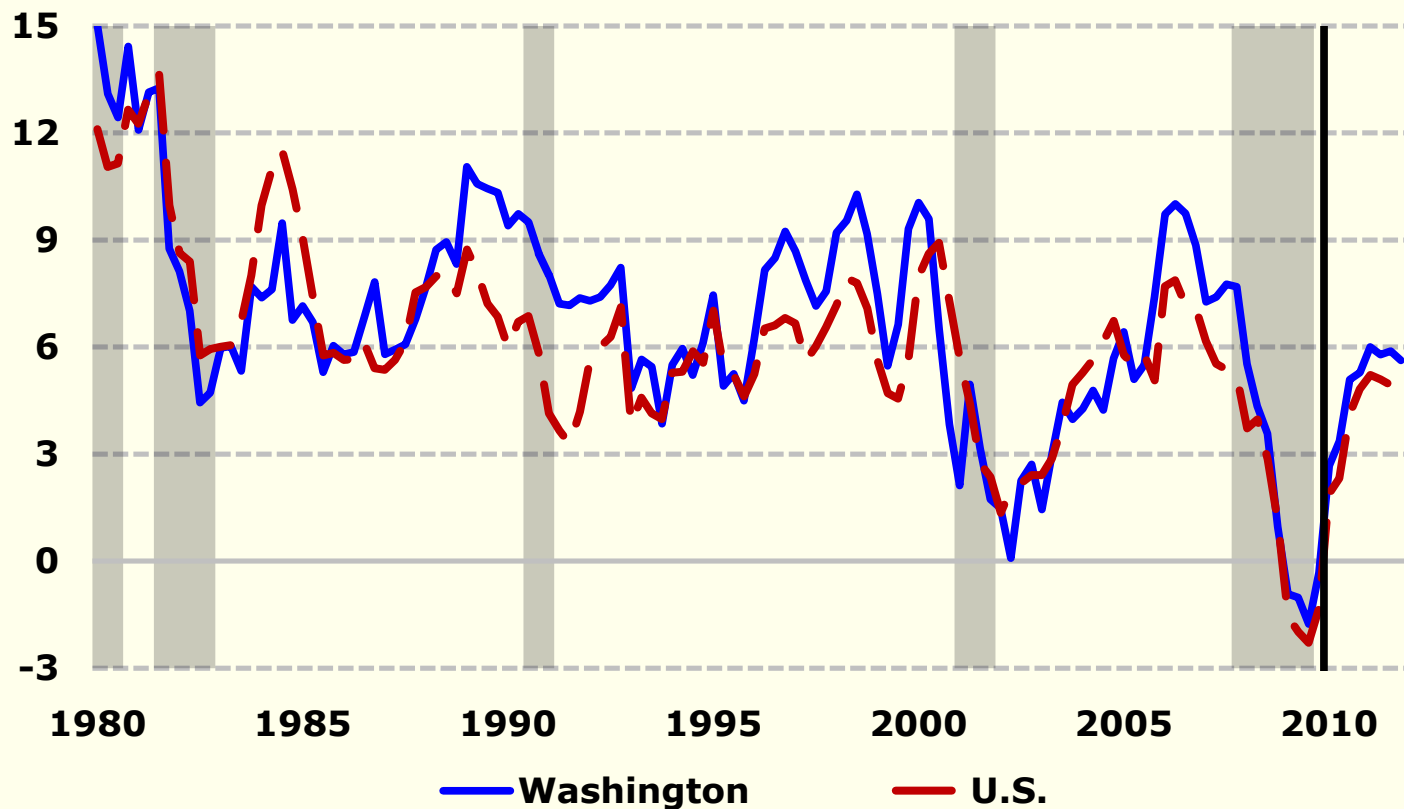


Source: ERFC June 2010 forecast; actual through June 2010



The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago



Source: ERFC June 2010 forecast; actual data through 2010Q1



Forecast changes: General Fund State, 2009-2011 Biennium

**February
Forecast:**

**\$28,725
million**

**USD
millions**

	<u>Collection Experience</u>	June '10 Forecast			
		<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$34)	\$749	(\$159)	\$27,802	\$556
All other agencies	(\$5)	\$54	(\$47)	\$1,481	\$1
Total GF-S	(\$39)	\$803	(\$207)	\$29,282	\$558

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* Detail may not add to total due to rounding



Forecast changes: General Fund State, 2011-2013 Biennium

USD Millions

**USD
millions**

		June '10 Forecast			
	<u>February 2010 Forecast</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$30,658	\$1,556	\$219	\$32,433	\$1,774
All other agencies	\$1,566	\$105	(\$21)	\$1,650	\$84
Total GF-S	\$32,225	\$1,661	\$197	\$34,083	\$1,858

* Detail may not add to total due to rounding

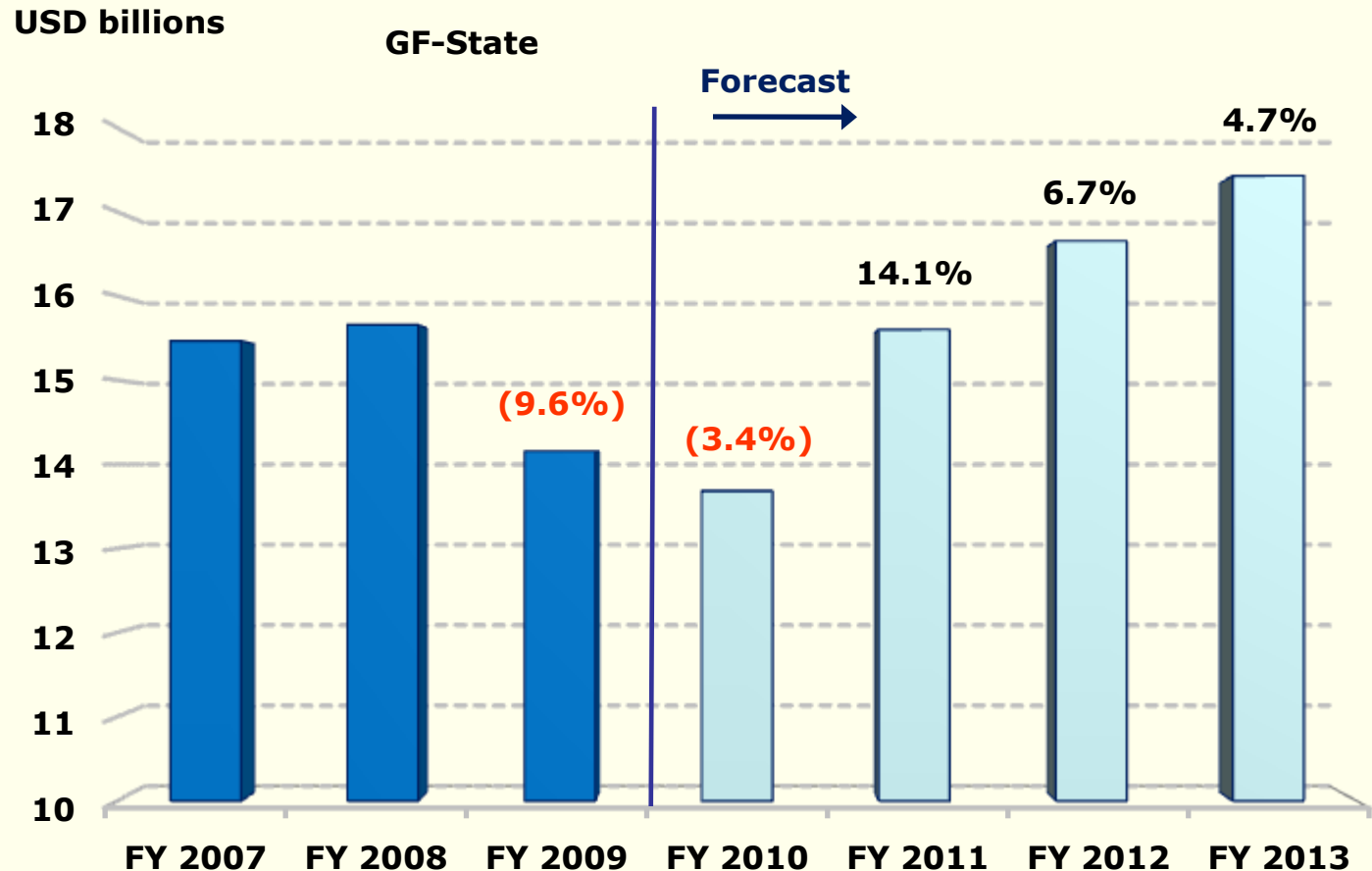


General Fund* forecast by fiscal year

* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13

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Source: ERFC forecast, June 2010; includes impact of legislative changes



Conclusion

Pluses

- Recovery in progress
- Evidence of pent up demand
- Job growth has returned
- Car sales are improving
- Large banks able to extend credit

Minuses

- Weak May, neutral June
- Weak consumer confidence
- Credit still tight for small business
- Slow recovery in construction
- Slow growth in jobs

- Excluding non-economic factors the forecast shifts \$200 million from this biennium to the next



Questions



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